

Major 2002 Legislative Changes



Several of the bills passed by the 2002 Legislature directly affect Nebraska's tax programs. Additional information is being prepared on several of the changes contained in this notice, such as the new services being taxed and the treatment of federal bonus depreciation. Access the Department of Revenue Web site (www.revenue.state.ne.us) to get the latest information available.

Changes to the motor fuels and charitable gaming programs are not included in this notice. Contact Motor Fuels at 800-554-3835 and Charitable Gaming at 877-564-1315 for information on those changes.

Sales and Use Tax

Sales Tax Rate Increase

For one year beginning October 1, 2002, the Nebraska sales and use tax rate will increase from 5.0% to 5.5%. (LB 1085)

New Services Subject to Tax

Beginning October 1, 2002, the following services are subject to tax:

- Building cleaning and maintenance services
- Pest control services
- Security services
- Motor vehicle washing, waxing, towing and painting

Sales tax is due on the total amount charged for the service without deduction for any materials used, labor costs, interest paid, delivery charges or any other mandatory charge required to be paid in the purchase of the service. Sellers of these services must obtain a Nebraska sales tax permit and begin collecting and remitting the tax for all sales made on and after October 1, 2002. (LB1085)

Public Records

Beginning October 1, 2002, sales of public records and documents are exempt from tax. The exemption applies to documents such as permits and licenses which are required to be furnished by a governmental agency as well as those which are permissive in nature, such as court records and property tax records.

Documents developed and produced by a governmental agency for commercial sale to the general public remain subject to tax provided the price is not fixed by state law or state regulation. (LB 57)

Drainage Districts and Elected County Fair Boards

Beginning October 1, 2002, purchases by a Nebraska Drainage District and an elected Nebraska County Fair Board are exempt from tax. The exemption applies to all purchases except those for use in the business of furnishing gas, water, electricity or heat. (LB 123)

Mobile Telecommunications Services

Beginning August 1, 2002, sales of mobile telecommunications services are subject to tax. The term "mobile telecommunications services" includes local and intrastate cellular telephone service, paging, and two-way radio service. The sales are subject to tax at the residential street address or the primary business street address of the customer.

Although charges for local and intrastate cellular telephone service have been subject to tax, beginning August 1, 2002, charges for paging and two-way radio services become taxable. In addition, the definition of "intrastate" has been changed to include mobile telecommunications services that originate and terminate in the same state, even if that state is not Nebraska. (LB 947)

Mobile Homes and Cabin Trailers

Effective April 20, 2002, persons requesting a certificate of title for a mobile home or cabin trailer are required to provide the county clerk with a certificate verifying that sales or use tax has been paid on the purchase of the mobile home or cabin trailer, or that the transfer of the title was exempt from sales and use tax.

The purchaser can provide a copy of the purchase agreement that identifies the amount of Nebraska sales tax paid to the seller of the unit or other documentation evidencing payment of sales or use tax. If the purchaser is unable to provide a document evidencing the payment of sales or use tax on the unit, the purchaser may be required to pay sales or use tax to the county treasurer prior to receiving a certificate of title on the unit. (LB 994)

Aircraft

Beginning October 1, 2002, sales of aircraft repair and replacement parts and the installation or application services associated with such parts are not subject to tax when sold to a nonresident individual or other person with a business location outside Nebraska. The aircraft must be based and registered outside Nebraska and must be removed from this state within 10 days after the service is completed. (LB 1085)

Computer Software Training

Beginning October 1, 2002, charges for computer software training are subject to tax when the training is performed at a location within Nebraska. The service can be performed by the seller of the software or any other person. (LB 1085)

Installation and Application Labor

Beginning October 1, 2002, charges for installing and applying tangible personal property are subject to tax when associated with property that is subject to tax. Persons charging for installation services include a contractor operating under Option 1. (LB 1085)

Refractory Materials

Beginning October 1, 2002, sales of refractory materials, lime, synthetic slag, mill rolls and guides for use in the manufacture of steel or cement are subject to tax. (LB1085)

Magazine or Journal Subscriptions

Beginning October 1, 2002, sales of magazines or journals which are sold by subscription are subject to tax. (LB 1085)

Estate and Transfer Tax

The Nebraska estate tax and generation-skipping transfer tax are retained even though the federal transfer taxes are being eliminated by the year 2005. The Nebraska taxable transfer is the federal taxable transfer with an exemption amount of \$1 million. The Nebraska estate tax ranges from .8% for taxable estates between \$40,000 and \$90,000 to 16% for taxable estates greater than \$10,040,000. The tax rate for generation-skipping transfers is 16%. Operative January 1, 2003. (LB 905)

Income Tax

Income Tax Rates

For tax year 2003, the individual and fiduciary income tax rates have been increased. The new rates for the four income brackets are: 2.56%, 3.57%, 5.12% and 6.84%. Operative January 1, 2003. (LB 1085)

Bonus Depreciation

For assets placed in service after September 10, 2001 and before September 11, 2004, 85% of the bonus depreciation allowed under recent federal law changes is added back for individual, corporate and fiduciary income tax purposes. The amount added back is allowed as a deduction over five years beginning in tax year 2005. Partners, members, and shareholders of partnerships, limited liability companies, sub-chapter S corporations, and cooperatives will add back their pro-rata share of the bonus depreciation on their individual income tax returns. (LB 1085)

Miscellaneous

Cigarette Tax Rate

For a two-year period beginning October 1, 2002, the cigarette tax rate will increase to \$.64 per package of cigarettes containing one to twenty cigarettes and \$.80 per package containing twenty five cigarettes. (LB 1085)

Other Tobacco Products Tax Rate

The tax rate on the first owner of other tobacco products sold in Nebraska will increase to 20% beginning October 1, 2002. **Sales of cigarettes are not included in this program.** (LB 1085)

Cigarette Wholesaler License, Certification and Penalty

Effective April 20, 2002, Nebraska-licensed cigarette wholesalers who are in violation of the cigarette tax statutes or rules or regulations may be subject to an administrative penalty not to exceed \$1,000 for each violation. (LB 989)

Effective April 20, 2002, cigarette manufacturers whose cigarettes are sold in Nebraska must annually certify to the Tax Commissioner that they are either participating in the Master Settlement Agreement or are depositing money into escrow based on the number of cigarettes sold in Nebraska. The certification must be delivered on or before August 30, 2002 for calendar year 2001. For years 2002 and after, the certification is due on or before April 30th of the following year. (LB 989)

FOR NEBRASKA TAX ASSISTANCE

For All Tax Programs Except Motor Fuels

Contact your regional office or call **1-800-742-7474** (toll free in NE and IA)
or **1-402-471-5729**

Nebraska Department of Revenue Web site address: www.revenue.state.ne.us

A copy of the Taxpayer Bill of Rights is available by calling any of our regional offices or visiting our Web site.

SCOTTSBLUFF

Panhandle State Office Complex
4500 Avenue I, Box 1500
Scottsbluff, Nebraska 69363-1500
Telephone (308) 632-1200

NORTH PLATTE

Craft State Office Building
200 South Silber Street
North Platte, Nebraska 69101-4200
Telephone (308) 535-8250

GRAND ISLAND

TierOne Bank Building, Suite 460
1811 West Second Street
Grand Island, Nebraska 68803-5469
Telephone (308) 385-6067

NORFOLK

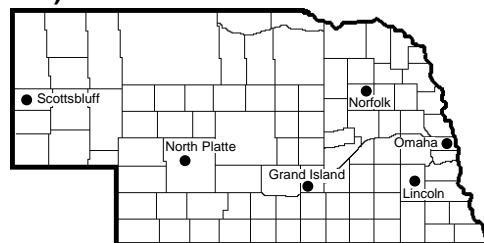
304 North 5th Street, Suite "D"
Norfolk, Nebraska 68701-4091
Telephone (402) 370-3333

OMAHA

Nebraska State Office Building
1313 Farnam-on-the-Mall
Omaha, Nebraska 68102-1871
Telephone (402) 595-2065

LINCOLN

Nebraska State Office Building
301 Centennial Mall South
Lincoln, Nebraska 68509-4818
Telephone (402) 471-5729



For Motor Fuels tax programs only call toll free 1-800-554-3835 (Lincoln residents call 471-5730).

Hearing-impaired individuals may call the Text Telephone (TT) at 1-800-382-9309. TDD (Telecommunications Device for the Deaf) is designated by the use of "TT," which is consistent with the Americans with Disabilities Act.